



Arizona Department of Real Estate

A Three-Year Review
September 2006

Commissioner Elaine Richardson

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Executive Summary

The Arizona Department of Real Estate is committed to efficient work practices. Since her appointment in 2003, Commissioner Elaine Richardson initiated many changes that have resulted in:

- Reduced license application backlog
- Streamlined investigations
- Shorter lobby wait times
- Stronger regulation
- Clearer education standards
- Simplified Public Report process

These changes have made the Department more efficient than ever before. Efficiency is a necessity because while the real estate industry has experienced tremendous growth, the Department's staffing levels have remained stagnant. The Department could not have managed the growth without these changes.

REDUCED LICENSE APPLICATION BACKLOG

The application backlog for a license was reduced from 9 weeks in July 2005 to 4 weeks in July 2006 due to the implementation of the On-line License Renewal System (OLRS). OLRs allows licensees to perform many tasks on-line which would have otherwise taken the time of Department staff.

SHORTER LOBBY WAIT TIMES

Waiting time in the licensing lobby decreased from 2-3 hours to less than 15 minutes due in part to the implementation of the Concierge and Drop Box System. This innovative idea streamlines services in the lobby.

CLEARER EDUCATION STANDARDS

The newly created Education Advisory Committee standardized course content for real estate license candidates, and published this information on the Department's website. School administrators and instructors can easily access this information.

STREAMLINED INVESTIGATIONS

The Department reduced the time cases are open by almost 100 days between 2003 and 2006. This is the result of improved investigation techniques, prioritizing cases, and better case management.

IMPROVED AUDITING EFFICIENCY

The Auditing Division implemented a Broker Audit Declaration (self audit) program assisting both Brokers and Auditors in ensuring Brokers are in compliance with the real estate laws and rules applicable to Brokers.

STRONGER REGULATION

The Department completed 191 Accelerated Settlement Agreements (aka "Traffic Tickets") that, in the past, would have been handled through the regular disciplinary process. This voluntary program has been tremendously successful because civil penalties have a great impact on licensees.

SIMPLIFIED PUBLIC REPORT PROCESS

The Department revised the Subdivision Public Report application form, filing procedures, and established minimum filing requirements for development applications. The Department also modified the review process for properties located in the United States and Sonora, Mexico that are marketed to Arizonans. These changes streamlined the Public Report process, which benefits the consumer, the department, and the state.

Licensing

Licensing Division Statistics			
	FY 2003	FY 2006	Increase
Arizona Brokers and Salespersons	65,651	90,974	38%
New Broker and Salesperson Applications	8,261	14,137	71%
Salesperson and Broker License Renewals	20,326	27,764	37%
Walk-ins	33,736	39,424	17%
Hire/Sever Actions & Other Changes	24,249	67,267	177%
Number of Licensing Division Staff*	7	9	29%
*Staff who process license applications - not including managers			

The Department's Licensing Division experienced tremendous demand in all areas. To address this demand, the Department implemented two new programs that reduced the amount of time licensees waited for their applications to be processed.

On-line License Renewal System (OLRS)

In February 2005 the Department launched the first phase of the On-line License Renewal System. This system offers individual licensees the ability to make changes to their licenses over the Internet. The accessibility and ease of use encourages license holders to renew their licenses and comply with the statutory requirement to notify the Department within ten days of a change of address.

Services currently available to licensees on-line:

- Timely Renewal
- Sever employment from a brokerage
- Request to be hired by a brokerage
- Change personal (residential) address
- Change employing brokers
- Brokers can view on-line transactions pending their approval
- Brokers have the ability to approve employee license renewals and hires

The "Concierge and Drop Box"

To meet the application increases, the Department:

- Revised the licensing forms and made detailed instructions and checklists available on the Internet.
- Placed two computer terminals with access to OLRS in the Licensing reception area for the convenience and use of licensees.
- Reassigned one licensing staff member in May 2006 as a "Concierge" to greet walk-in customers, review forms for completeness, and put completed applications in the application drop-box.
- Encourages licensees who can file their applications on-line to do so.

These changes decreased the application backlog from **9 weeks in July 2005 to 4 weeks** by June 30, 2006. Waiting time in the licensing lobby decreased from 2-3 hours to less than 15 minutes, and the lines disappeared.

Education

Prelicensure DVD

The Department developed a video presentation for prospective license applicants addressing the good character needed to qualify for licensure as a broker or salesperson. In May 2006, the Department issued a copy of the DVD to real estate schools that teach the real estate prelicensure education classes. The DVD was made a part of the prescribed prelicensure course curriculum. Candidates with criminal convictions, adverse judgments or action taken against an occupational or professional license they hold or have held are put on notice of additional information required as part of their application. The candidates are informed that these prior events may result in denial of their application. The schools are required to show the DVD to students before or during the first class session so students who believe they may not qualify for licensure can avoid attending the 90-hour prelicensure course.



A snapshot of the Prelicensure Education DVD



Commissioner Richardson speaks to prospective license applicants on the Prelicensure Education DVD

Education Advisory Committee

The Department created a 14-member committee comprised of people from around the state involved or interested in the education process and program. The committee is chaired by the Licensing & Professional Education Division Director and meets every other month, usually at the Department's offices in Phoenix. The Committee's mission is "To advise the Education Division so that the Division can fulfill its mission of protecting the public interest by raising the level of professionalism in the real estate sector without unduly increasing barriers to entry."

Revised Prelicensure Curricula Outlines

In January 2006, the Education Advisory Committee concluded a review of the course outlines leading to licensure as an Arizona real estate salesperson or broker. This resulted in standardization of the course content for real estate license candidates. The Department published these updated outlines on its webpage.

Investigations

Investigation Statistics			
	FY 2003	FY 2006	Increase
Complaints Opened	1,059	1,620	53%
Complaints Closed	771	1,552	101%
Forwarded for Discipline	78	195	150%
Average Days Cases are Open	250	147	-41%
Number of Investigators	7	8	14%

Although the number of complaints increased by over 50%, as a result of improved investigative techniques, prioritizing cases, and better case management, the Department sent more cases forward for discipline and reduced the time cases are open by almost 100 days. The Department was also **the lead agency in several special investigations**, including: a gasoline pipeline leak, fissures in eastern Maricopa and Northern Pinal Counties, an undisclosed abandoned crop dusting airport in a subdivision, and an undisclosed jet engine testing facility. These cases raised the awareness of licensees and the public of these hazardous conditions.

The Department was the lead agency in several multi-agency investigations, working with the Office of the Attorney General and other city, state and federal agencies. As a result of these investigations the Attorney General's office successfully prosecuted several people, resulting in felony fraud convictions with prison sentences. The Department also worked with a variety of other agencies in a supporting role, assisting in criminal cases with real estate implications.

Illegal Subdivisions

To address the growing issue of illegal subdivisions, the Department:

- Established a special unit within the Investigation Division consisting of a Deputy Director and three investigators who specialize in complaints concerning land developments, including illegal subdivisions.
- Began an education program to provide training to county and city planning and zoning staffs on subdivision-related statutes, rules and issues.
- Significantly increased the number of illegal subdivision referrals received from various governmental agencies, assisting the Department in addressing this exploding problem.
- Resolved over 370 illegal subdivision investigations. Several major cases involved very large parcels of land and multiple participants.

In addition, the Department is developing a program to work with county planning and zoning agencies on joint investigations of illegal subdivisions.

Consumer Assistance Team

To provide more efficient service and consistent information to the public the Department created a Consumer Assistance Team (CAT) within the Investigation Division. The CAT:

- Answers incoming calls and questions from walk-in consumers and licensees,
- Provides information on and assistance with the complaint process,
- Makes referrals to the appropriate agency or organization when the issue does not involve the Department, and
- Provides research and other support to the Investigators.

Auditing

The Auditing Division consists of a Deputy Director and four auditors, and is responsible for conducting performance and fiscal audits of all Designated Brokers in the state. These audits ensure Designated Brokers comply with statutes and rules. Auditors ensure the brokers review and initial all contracts, maintain complete transaction files, reconcile trust accounts, have proper signage, policy manuals, etc.

The most important function of the Auditors is to **ensure the Brokers properly handle funds entrusted to them**. Deposits, escrow monies, and other funds are susceptible to mishandling either through poor accounting practices or fraudulent activity. The Auditors' function is to protect the public by ensuring the Brokers use proper procedures.

Broker Audit Declaration

As the number of licensed Brokers increased it became more difficult for the Department to audit the Brokers in a timely manner. As a result, the Department developed the Broker Audit Declaration - a "self audit" that each Designated Broker must complete and submit to the Department as a part of the license renewal process. The Broker Audit Declaration helps Brokers identify and correct minor issues.

Benefits of the Broker Audit Declaration:

- Physical audits are now conducted primarily on Brokers with high risk factors, which are the most critical to protect the public. Previously the Department randomly selected Brokers for audits.
- Auditors review the Declarations and call or write the Brokers concerning discrepancies, or to clarify and correct minor issues that would otherwise be unresolved.
- Brokers have the opportunity to review their own operation and make corrections.

BROKER SUPERVISION & CONTROL AUDIT DECLARATION	
The Designated Broker shall complete this Audit Declaration and return it to the Department of Real Estate concurrent with Broker's license renewal to:	
Arizona Department of Real Estate 2910 North 44 th Street, Suite 100 Phoenix, Arizona 85018	OR Arizona Department of Real Estate 400 W. Congress, Suite 523 Tucson, Arizona 85701
An Equal Employment Opportunity Agency	
Pursuant to A.R.S. § 32-2153(A)(17) and A.A.C. R4-28-303(A)(2)(f), this Audit Declaration is required as part of the Designated/Self Employed Broker's Renewal Application or as determined appropriate by the Department's Audit Division. This Audit Declaration does not preclude an onsite or field audit of the books and records of the brokerage pursuant to A.R.S. §§ 32-2108(A), 32-2151.01(A) and 32-2175(H). The Department will use the information in the completed Audit Declaration when conducting any future field audit.	
The Audit Declaration is an important report that will become a public record and be kept by the Department for at least five years. Please complete, sign and return the Audit Declaration to the Department with the License Renewal forms and fees. ALL NO answers require further explanation on Page 8. If you have questions relating to how to respond to any item, you may email your question(s) to auditing@re.state.az.us . Statutes and rules are summarized, refer to the quoted source when answering the questions.	
ADMINISTRATIVE-PRINT CLEARLY	
DESIGNATED BROKER'S NAME/BUSINESS PHONE NUMBER	(LICENSE NUMBER)
BROKERAGE BUSINESS NAME/SEA	(LICENSE NUMBER)
BUSINESS STREET ADDRESS	IS THIS A HOME OFFICE? _____
CITY/COUNTY/STATE/ZIP CODE	
Number of salespersons and associate brokers licensed to the brokerage: _____ (DO NOT include the Designated Broker)	
Number of unlicensed employees at the brokerage (part-time and full-time): _____	
Average number of Sales and Lease transactions handled per year: _____	
The brokerage conducts (check all that apply): <input type="checkbox"/> Residential Real Estate	
<input type="checkbox"/> Commercial Sales and Leasing <input type="checkbox"/> Business Brokerage <input type="checkbox"/> Farm and Ranch	
<input type="checkbox"/> Residential Property Management <input type="checkbox"/> Commercial Property Management	
<input type="checkbox"/> New Home Subdivision <input type="checkbox"/> Other Subdivision/Unsubdivided Land <input type="checkbox"/> Timeshare	
<input type="checkbox"/> Other (list): _____	
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Administrative Actions

Administrative Actions Statistics			
	FY 2003	FY 2006	Increase
Cases Initiated	110	791	619%
Cases Resolved with Discipline	116	374	222%
Number of Staff	4	5	25%

In 2003 Commissioner Richardson brought an increased emphasis on enforcement by following the statutes, which had not always been done in the past. The increase in the number of licensees led to a subsequent increase in the number of violations. This, combined with Commissioner Richardson's commitment to increased enforcement, led to an influx of cases for the Administrative Actions Division. The Division needed to be **creative and innovative** when managing its caseload, and that is exactly what happened.

Accelerated Settlement Agreements

In 2006 the Department created the **voluntary** Accelerated Settlement Agreement (ASA), also known as the "traffic ticket". This one-page "consent agreement" may be offered to licensees who

- Fail to disclose convictions, adverse judgments, or other issues to the Department within 10 days as required by Rule,
- Continue to conduct activity requiring licensure after their license expires,
- Conduct illegal advertising, or
- Renew on-line without the proper continuing education courses (false application).

This voluntary program has been overwhelmingly successful. Department staff would have fallen significantly farther behind in resolving cases without implementing this process.

- Over 95% of the licensees presented with the opportunity to accept an ASA do so.
- This process increased the Department's ability to protect the public through enforcement. In only 5 months, the Department accepted 191 accelerated settlements.
- The Department would have needed at least two additional staff positions to complete the same amount of work through the regular disciplinary process.



Administrative Action staff in a settlement conference

Subdivisions and Development Services

Subdivisions and Development Services Statistics			
	FY 2003	FY 2006	Increase
Subdivision Original Filings	747	1,269	70%
Number of Staff	5	5	0%

Subdivision Task Force

Arizona experienced a “development explosion” during the past three years as part of the nation-wide real estate boom. As a result, the Commissioner appointed a Subdivision Task Force to review the processes and procedures of the Subdivisions and Development Services Division and make recommendations for efficiency improvement. The results of the task force lead to several changes implemented to address workload increases in the Division.

The Division:

- Implemented a major revision and modification to the Subdivision Public Report Application form and filing procedures.
- Established ‘filing procedures’ for applicants and an inspection fee schedule. Now, inspection fees are collected with submission of the application. Previously the Department sent bills to the developers after completing the inspections.
- Revised the form and filing procedures to make them more user friendly and increase staff efficiency.

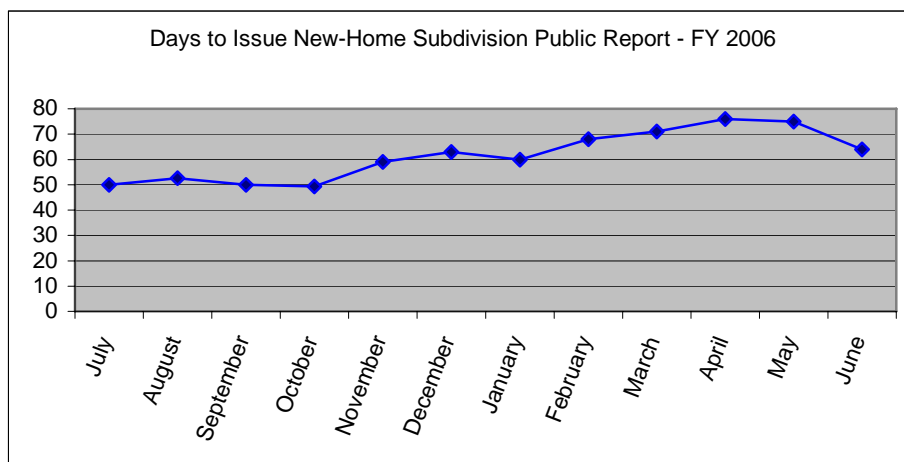
Simplified Public Report Process

The Division established ‘Minimum Filing Requirements’ for Development (Subdivision Public Report) Applications.

- New applications including the minimum filing requirements are accepted and the filing fee is receipted.
- Applications not meeting the minimum filing requirements are returned to the applicant.

This revision to the Public Report application process

- Significantly reduced the number of filings with deficiencies and helped reduce the backlog.
- Helped the Department reduce the number of days to issue a Public Report for a new-home subdivision.





In 2003 Governor Janet Napolitano appointed Commissioner Elaine Richardson as Co-Chair of the Arizona-Mexico Commission (AMC) Real Estate Task Force. The Commissioner began her tenure with great zeal and one of her first projects was to promote the creation of Bylaws and have the Task Force become an Ad Hoc Committee.

In the past the Task Force focused on protocol. One immediate challenge the Commissioner addressed was to identify a Sonora counterpart. The Commissioner and Committee members engaged in dialog with key individuals both in Sonora and Arizona to assist in scheduling a meeting with Sonora Governor Eduardo Bours.



Governor Eduardo Bours, Commissioner Richardson, and Members of the Real Estate Ad Hoc Committee (Arizona & Sonora)



Governor Napolitano, Commissioner Richardson, & Governor Bours

The Real Estate Ad Hoc Committee met with Governor Eduardo Bours and officials from the Sonora government in December 2004 in Alamos, Sonora. This meeting resulted in the creation of the Sonora Real Estate Committee and the appointment of Edmundo Chavez as Chair. From that point both the Sonora Committee and the Real Estate Ad Hoc Committee worked closely to address pertinent issues concerning real estate transactions in Sonora, Mexico.

One pertinent issue was the Arizona Public Report Application as it pertained to developers marketing to Arizona consumers. In response to various meetings and discussions held between the two Committees, the Department modified and streamlined the Arizona Public Report application process for those projects in Sonora, Mexico. This fulfilled the goal of the Governors of both Arizona and Sonora, and was seen as a nearly impossible task. These changes improved efficiency and helped protect consumers.

In conjunction with the Real Estate Ad Hoc Committee, the Department facilitated a series of educational workshops (October 2005 to September 2006) on real estate transactions in Mexico. Topics ranged from “Introduction to Mexican Real Estate Law and Practice” to “Title Insurance for Mexico”. These workshops were well attended. The Department issued continuing education credit for most of the workshops.

In addition, the Department produced a Consumer Guide titled [Buying Property in Mexico](#) and distributed throughout Arizona and Sonora. A copy of the guide is free to the public and available on the Department’s website.

Outreach

In addition to the day-to-day routine of management of the Department, the Commissioner and her staff frequently receive requests for presentations. Some of the presentations are in conjunction with county and city government and others are in coordination with various trade associations including the Arizona Association of Realtors®.

The real estate industry relies on the Department for its knowledge and expertise. Four members of management possess a total of over 75 years of institutional knowledge regarding the Department and real estate.

One of the goals of the Department's outreach efforts is to provide a better understanding of the Department and real estate law. Educating the consumers and stakeholders assists the Department in its efforts to fulfill its mission to protect the public.

The Department's outreach has included statewide and international presentations. Representatives from Namibia, the Republic of Kazakhstan, Mexico and Iraq have requested guidance for developing a structure for real estate activity.



Representatives from Kazakhstan & ADRE



Namibia officials & Department staff



Brian Harron (Sunbelt Business Brokers), Mary Utley (ADRE), Commissioner Richardson, Jack Fowler CCIM (Realty Executives Prescott Area), and Faith Johnson (First American Title) after a presentation to Commercial and Business Brokers in Prescott

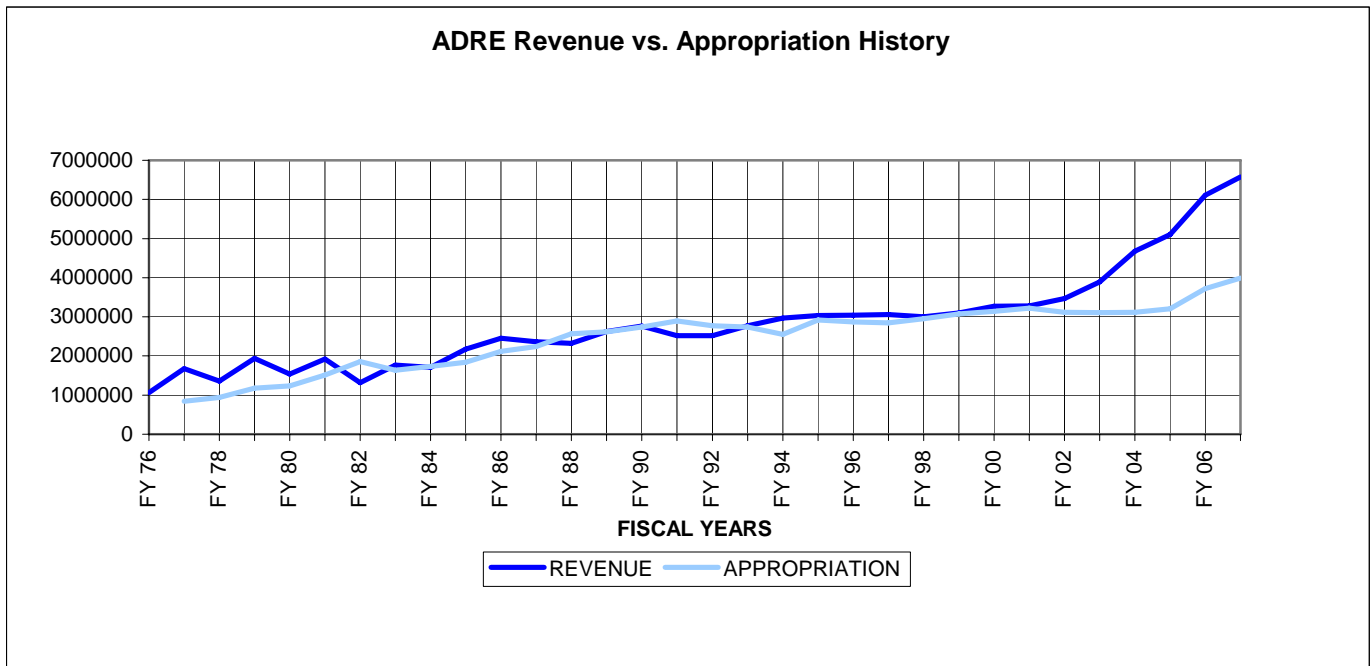
Conclusion

The Department experienced phenomenal growth over the past three years in all areas: licensees, complaints, investigations, developments and disciplinary actions. The Department has been innovative and responsive to address these challenges within the limited budget and staffing provided.

Since her appointment in 2003, Commissioner Richardson initiated many changes that made the Department more efficient than ever before. The results are:

- License application backlog decreased from nine weeks to four weeks in a one-year time period
- Waiting time in the licensing lobby decreased from 2-3 hours to less than 15 minutes
- Investigation case open time decreased by almost 100 days between 2003 and 2006
- Complex broker physical audits increased
- Disciplinary actions increased due to stronger regulation
- Time to process a Public Report decreased

Between FY 2003 and FY 2006, revenue generated by the Department for the General Fund increased from **\$3,890,100** to **\$6,106,100**, while at the same time the Department's appropriation only increased from **\$3,104,900** to **\$3,718,800**. The Department anticipates continued growth in all areas of its operation and will continue to work to provide the best service possible given the staffing and funding resources available.



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